O'DONNELL & ASSOCIATES

ATTORNEYS AT LAW
1190 CHESTNUT STREET, MENLO PARK CA 94025
650/853-7183 WWW.ESTATEANDTRUSTPLANNING.COM

How Tax Reform Will Impact You and Your Estate Planning

Matthew O'Donnell, Esq. is certified by the State Bar of California Board of Legal Specialization as a Specialist in Estate Planning, Trust and Probate law.

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All of us here at O'Donnell & Associates are committed to giving our clients peace of mind by providing comprehensive estate planning solutions and services.

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We are happy to answer your questions and address your estate concerns. Call us at 650/853-7183

In December 2017, Congress passed and President Trump signed a sweeping tax reform bill commonly known as the Tax Cuts and Jobs Act.

This Act contains significant changes that will impact your estate planning and income tax situation going forward.

ESTATE TAX CHANGES

Starting January 1, 2018, the estate, gift, and generation-skipping transfer (GST) tax exemptions double from $5 million to $10 million (adjusted for inflation after 2011). For 2018, the exemption is now $11.2 million per person ($22.4 million for a married couple).

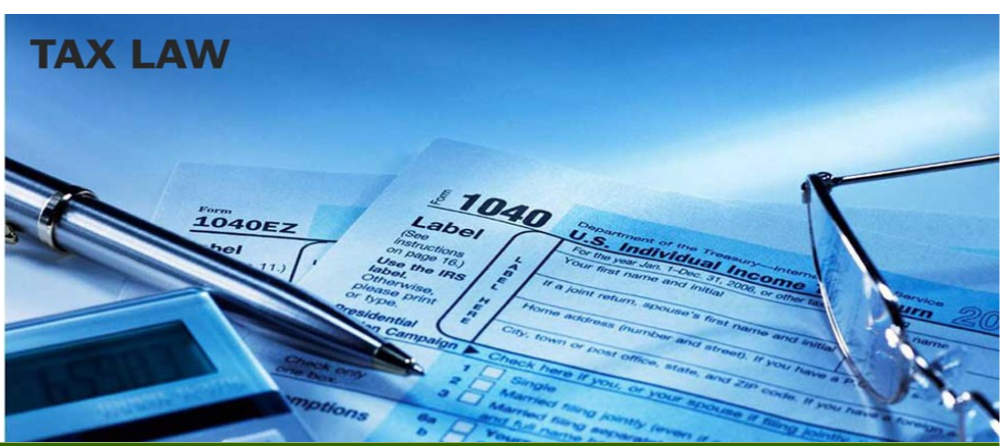
The GST tax exemption will adjust for inflation each year. This doubled exemption remains in effect until December 31, 2025, at which time the law sunsets and the exemptions revert to the $5 million level (indexed for inflation).

These changes offer significant opportunities to remove assets from your estate and permanently exempt future appreciation of those assets from estate, gift, and GST taxation.

Of course, whether tax-driven planning is appropriate for you depends on many factors. We are here to help answer any questions you have and also to work with you to optimize your existing plan or build a new plan for you.

Remember, estate tax planning is only one aspect of estate planning. Incapacity issues, protecting financially imprudent heirs from themselves, asset protection for you and your beneficiaries, avoiding probate, and minimizing income taxes are all other aims that can be achieved with proper estate planning.

Don't think that you do not need additional estate planning because of the increased exemption. Proper, up-to-date estate planning is absolutely essential for protecting your family and allowing you to rest easy knowing that everything



Changes to Individual Taxation

The Tax Cuts and Jobs Act retains a seven-bracket rate structure but changes the income level and rate for each bracket. The standard deduction is increased from $6,350 to $12,000 for individuals and $12,700 to $24,000 for married couples. However, the personal exemption deduction has been repealed.

The widening of brackets, rate reductions, and increase in standard deduction are all intended to offset the repeal of the personal exemption. Congress's hoped-for result is lower effective income tax rates for individuals. The new $10,000 aggregate cap on state and local tax deductions, the $750,000 acquisition indebtedness cap on the mortgage interest deduction, and the removal of so-called miscellaneous itemized deductions will all affect your income tax planning going forward.

California legislation is in the works to restore the full federal income tax deduction for payment of state income taxes by allowing residents to donate to the state instead of paying state income taxes.

The capital gains rate and net investment income tax are unchanged. The top long-term capital gains rate remains at 20 percent, and the net investment income tax rate remains at 3.8 percent.

Like the changes to pass-through businesses (more below), these changes to the standard deduction, brackets, and the personal exemption are in effect from January 1, 2018, through December 31, 2025. Expect to see some changes to your tax withholding possibly as early as February, and some different looking 1040s when you file your 2018 tax returns in early 2019.

Pass-Through Business Changes

If you own a small business, the reform of taxation for pass-through entities (sole proprietorships, partnerships, S corporations, and LLCs taxed as partnerships or S corporations), is likely an incredibly welcome change. The Act provides for a 20 percent deduction for most pass-through businesses which reduces the effective top tax rate to 29.6 percent (37 percent highest bracket less the 20 percent deduction yields a 29.6 percent effective rate). Owners of some service businesses, including those in the fields of health, law, consulting, athletics, and financial services, are subject to income limitations. If you earn a high income in a service business you will not receive the 20 percent deduction, but other strategies are available to help you reduce your income tax burden.

This 20 percent deduction is available from January 1, 2018, through December 31, 2025. We should discuss the impact of this new law if you are considering transitioning to or opening a new pass-through business entity. Depending on your situation, a C corporation may also be a sensible idea. The Act also reduces the C corporation rate from up to 35 percent to a flat 21 percent.

Putting It All Together

The Act is perhaps the most significant tax legislation in over 30 years. Continued study and experience with the Act will undoubtedly reveal numerous new tax planning opportunities in the coming months and years. Stay tuned for more details. In the meantime, feel free to give us a call with any questions you have about tax reform or estate planning: 650-853-7183